City and County of San Francisco

Office of the Controller – City Services Auditor

# CITYWIDE CASH TRANSACTIONS:

## Fiscal Year 2013-14 Combined Assessment: Departments Need to Improve Their Cash Handling

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*July 9, 2014*

**OFFICE OF THE CONTROLLER**
**CITY SERVICES AUDITOR**

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Under charter Appendix F, CSA has broad authority to:

- Report on the level and effectiveness of San Francisco's public services and benchmark the City to other public agencies and jurisdictions.
- Conduct financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operate a whistleblower hotline and website and investigate reports of waste, fraud, and abuse of city resources.
- Ensure the financial integrity and improve the overall performance and efficiency of city government.

CSA may conduct financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

For questions regarding the report, please contact Director of City Audits Tonia Lediju at Tonia.Lediju@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

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# City and County of San Francisco

## Office of the Controller - City Services Auditor

**Citywide Cash Transactions:**
**Fiscal Year 2013-14 Combined Assessment: Departments Need to Improve Their Cash Handling**

**July 9, 2014**

### Purpose of the Assessments

The Office of the Controller's City Services Auditor Division (CSA) assessed the adequacy of cash-handling processes and controls at six departments of the City and County of San Francisco (City). The assessments determined whether city departments have effective controls to accurately collect and safeguard cash and properly and promptly deposit cash they receive. The assessments' objectives were to develop a systematic process to monitor the City's cash receipt accounts and cash entry points and to detect risks and irregularities that warrant further examination. This is the fourth report in a series of planned annual assessments that CSA will perform on selected city departments.

### Highlights

The cash-handling processes at three of seven selected cash collection points were generally adequate. However, some areas should be improved to lessen the risks of handling cash transactions. Three cash collection points need major improvements to minimize the risks of collecting cash and one collection point had adequate controls.

The assessments resulted in eight overarching findings, each one applying to at least one department:

- Physical safeguarding of cash receipts needs improvement.
- Training of staff in cash-handling procedures needs improvement.
- Depositing and recording of cash receipts need improvement.
- Controls over custody and segregation of duties are weak.
- Departments should endorse checks upon receipt.
- Some cash-handling policies and procedures are absent or inadequate.
- Collections are not always adequately reconciled.
- Pre-numbered receipts are not used for receiving cash.

The departments generally concurred with CSA's findings and agreed to implement the majority of the recommendations.

### Recommendations

The assessments resulted in 13 overarching recommendations for city departments to strengthen their cash-management controls. They include:

- Develop and implement policies and procedures that will ensure the safeguarding of cash receipts.
- Implement a detailed annual training program of cash-handling procedures, document all training that is provided, and explore ways to train staff in counterfeit detection methods.
- Either comply with the next-day deposit requirement in city cash-handling guidelines or contact the Office of the Controller to establish a different schedule.
- Create and enforce policy to endorse all checks immediately upon receipt.
- Create departmental cash-handling policies and procedures and require all employees who handle cash to follow these policies.

*Copies of the full report may be obtained at:*
*Office of the Controller • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500*
*or on the Internet at http://www.sfgov.org/controller*

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

**Ben Rosenfield**
**Controller**

**Monique Zmuda**
**Deputy Controller**

July 9, 2014

City Departments and Agencies:

The City Services Auditor Division (CSA) of the Office of the Controller (Controller) presents its annual report on the assessments of citywide cash transactions for fiscal year 2013-14. For six departments in the City and County of San Francisco (City), CSA assessed cash-handling policies and procedures, controls, safeguarding techniques, deposit timeliness, and recordkeeping at seven cash collection points. The assessments' objective was to evaluate cash risks and the adequacy of cash entry points throughout the City.
CSA classifies locations with stronger cash-handling processes as satisfactory and those with few instances of control weaknesses as needing some improvement. If significant control weaknesses exist, CSA determines that major improvement is needed. If departments have severely inadequate controls and unmanaged risks, CSA deems the control environment to be unsatisfactory. CSA concluded that the cash-handling processes in three of the seven selected cash collection points need some improvement, three needed major improvement, and one had adequate controls. The report makes 13 overarching recommendations for departments to consider.

The departments generally concurred with CSA's findings and agreed to implement the majority of recommendations.
CSA appreciates the assistance and cooperation provided during the assessments by the management and staff of the departments and agencies assessed. CSA will work with these departments to follow up on the status of the recommendations. Also, CSA will work with Treasurer and AOSD staff to maintain updated information regarding the conditions of departments' cash-handling processes. For questions about the report, please contact me at Tonia.Lediju@sfgov.org or 415-554-5393, or CSA at 415-554-7469.

Respectfully,

Tonia Lediju
Director of City Audits

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
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## GLOSSARY OF TERMS

| | |
|---|---|
| City | City and County of San Francisco |
| Controller | Office of the Controller |
| CSA | City Services Auditor Division of Office of the Controller |
| Treasurer | Office of the Treasurer and Tax Collector |

# INTRODUCTION

## Background

The Office of the Controller (Controller) Departmental Guidelines No. 003-12, Cash Handling Guidelines, were issued to all City and County of San Francisco (City) departments in October 2011. These guidelines establish requirements for the handling of cash and are intended to assist departments in documenting their cash-handling procedures to ensure that effective controls exist.

*City cash-handling guidelines cover nine control areas.*

Cash is defined as coin, currency, checks, electronic fund transfers, and credit card transactions. To ensure consistency of operations and reduce the risk of errors, irregularities, and misappropriation of cash, departments' internal controls over cash receipts should include:

- Policies and procedures
- Adequate segregation of duties
- Safeguarding of cash
- Supervisory review and approval
- Staff training

Exhibit 1 summarizes the control areas and key elements per the City's cash-handling guidelines.

**EXHIBIT 1 City Cash-Handling Guidelines: Key Elements**

| Control Area | Key Elements* |
|---|---|
| Written Procedures | • General information about sources of cash received and bank accounts, cash receipts processes describing methods of receiving payment and deposits, reconciliation of deposits, accounting procedures, and inventory control over receipt books, among others.<br>• Staff must be trained in the handling of cash, based on their duties.<br>• A list of all staff involved with various phases of the cash-handling process must be maintained. |
| Segregation of Duties | Enforce dual custody by implementing procedures that:<br>• Require at least two employees to be present to open the safe.<br>• Prohibit employees responsible for collecting cash from preparing bank deposits.<br>• Require that cash counts be conducted and cash acceptance be certified by two employees for armored courier shipments.<br>• Require a supervisor to observe and verify each cashier's cash count for end-of-day balancing. |
| Security | • Analyze the security needs of each cash collection point, which might include security cameras, security guards, and securing the safe and cash registers or point-of-sale systems.<br>• Avoid counting cash in view of the public.<br>• Ensure that another employee or security officer accompanies any employee transporting large amounts of cash and checks.<br>• Regularly change passwords to point-of-sale systems. |
| Tracking of Cash | • Perform and document beginning cash counts.<br>• Implement a cash management system that allows each cashier to have their own drawer and be held responsible for cash overages or shortages. |
| Payment Collection and Depositing of Cash | • Establish procedures to have supervisors routinely collect revenue from cash collection points.<br>• Require deposits of cash with the Office of the Treasurer and Tax Collector (Treasurer) or a city bank account no later than one business day after its receipt. |
| Inventory Control Over Cash Receipt and Register Books | • Develop an inventory control system for receipt books that includes, for example, use of pre-numbered receipts.<br>• Implement policies and procedures related to customer receipt issuance to systematically account for sales transactions, including installing a cash register that generates sequenced receipts with transaction amount, date, time, quantity, and description. |
| Controls Over Credit Cards | • Ensure that customers always sign the merchant's copy of the credit card receipt if more than $25.<br>• Ensure that customer credit cards are returned. |
| Reconcile Collections Daily | • Ensure that cash, checks, and credit/debit card collections on each cashier's balance sheet match the cashier recap and note any discrepancies.<br>• Ensure that a supervisor reviews and approves any adjustments to financial reports. |
| Train Cash-Handling Staff | • Ensure that employees are well-trained in important cash-handling functions by implementing a detailed annual training program. |

*Note: The full list of elements for each control area can be found in the city cash-handling guidelines.

Source: City cash-handling guidelines.

*Six departments were assessed.*

There are 336 locations throughout the City that process cash for a variety of services. City Services Auditor Division (CSA) used a risk assessment process to determine the six city departments that underwent cash transaction assessments for fiscal year 2013-14.[1] The departments and cash collection points selected and assessed were the:

- District Attorney's Office
  - First Offender Prostitution Program
- Department of Human Resources
  - Worker's Compensation Division
- Human Services Agency
  - Lifeline Fast Pass Program
- Juvenile Probation Department
  - Business and Finance Unit
- San Francisco Municipal Transportation Agency
  - Finance and Information Technology Division–Clipper Card
  - Off-Street Parking Unit–Moscone Center Garage
- War Memorial and Performing Arts Center

These departments collect cash through fines, fees, transit fares, seized cash, and rental payments. Exhibit 2 summarizes the estimated revenue amounts collected at each department's assessed cash collection point.

[1] For the complete assessment matrix, see Appendix B.

**EXHIBIT 2 Summary of Collections by Department**

| Department | Average Monthly Revenue of Cash Collection Point [a] |
|---|---|
| District Attorney's Office | $7,321[b] |
| Department of Human Resources | 191,000[b] |
| Human Services Agency | 128,117[c] |
| Juvenile Probation Department | 21,785[b] |
| San Francisco Municipal Transportation Agency – Finance and Information Technology Division | 17,957,816[b] |
| San Francisco Municipal Transportation Agency – Off-Street Parking Division – Moscone Center Garage | 225,000[d] |
| War Memorial and Performing Arts Center | 198,537[e] |
| **TOTAL** | **$18,729,576** |

Notes:
[a] This does not include all cash collections for each department, only the revenues for each assessed cash collection point.
[b] As of July 2012
[c] As of March 2014; Collections only for 170 Otis Street
[d] As of February 2014
[e] As of January 2014

Source: Departments' responses to cash collection point survey, June 2013.

**Objectives**

The objectives of the assessments were to:

1. Execute a systematic process to monitor the City's cash receipt accounts and cash entry points to detect risks and irregularities that warrant further review.
2. Determine if selected departments have adequate policies and procedures for handling cash.
3. Determine if selected departments' cash collection points have adequate and effective controls to:
   - Collect the correct amount of cash.
   - Safeguard cash.
   - Ensure that all cash due to the City is properly and promptly deposited into authorized city accounts.

**Scope and Methodology**

CSA assessed six departments' cash-handling policies and procedures from July 2013 through June 2014.

For each department assessed, CSA analyzed survey responses[2] and selected a cash collection point to review. Because two units of SFMTA were reviewed, two cash collections points were selected.

For each sample cash collection point, the team:

- Asked key personnel to provide information about procedures for collecting and handling cash in their respective departments.
- Reviewed written cash-handling procedures.
- Evaluated internal controls related to adequate receipting, processing, and safeguarding of cash received.
- Observed cash collection processes.
- Reviewed a variety of sources to assess the cash-handling environments. These sources included:
  - Guidance from The Institute of Internal Auditors
  - *Government Auditing Standards* from the U.S. Government Accountability Office
  - Controller's Departmental Guidelines No. 003-12, Cash Handling Guidelines (city cash-handling guidelines)
  - *Model Cash Handling Training Manual* from the Association of Public Treasurers of the United States and Canada
  - Departmental cash management policies

CSA classifies collection points with stronger cash-handling processes as satisfactory, and those with few instances of control weaknesses as needing some improvement. If significant control weaknesses exist, CSA determines that major improvement is needed. If departments have severely inadequate controls and unmanaged risks, CSA deems the control environment to be unsatisfactory.

[2] For a complete list of survey items, see Appendix A

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# CHAPTER 1 – Cash-Handling Processes Could Be Improved

**Summary**

The cash-handling processes of three of seven selected cash collection points need major improvements. Three others were generally adequate, but some areas need improvement to lessen the risks of theft and misappropriation. One cash collection point was found to have adequate controls.

The assessments resulted in eight overarching findings, each one applying to at least one department:

- Five collection points do not consistently safeguard cash payments.
- Four collection points do not provide adequate cash-handling training to their staff.
- Three collection points need to improve depositing and recording of cash.
- Two collection points do not properly segregate duties.
- Two collection points need to endorse checks upon receipt.
- One collection point lacks or has inadequate cash-handling policies and procedures.
- One collection point does not always adequately reconcile cash collections.
- One collection point does not properly control transaction receipts.

**Finding 1.1**

*Security controls should exist wherever cash is handled.*

**Physical safeguarding of cash receipts needs improvement.**

At five collection points, cash is not properly safeguarded. Specifically, one unit leaves its safe unlocked during business hours, one does not always secure checks in a locked drawer, two do not secure cash in drawers that can be locked, and one needs to strengthen video surveillance.

According to the city cash-handling guidelines, security controls should be in place wherever necessary to ensure proper safeguarding of cash. This includes strengthened security over cash by appropriately securing the safe and cash register. Failing to provide

proper safeguards unduly exposes city assets to potential loss or theft.

**Recommendations**

Departments should:

1. Develop and implement policies and procedures that will ensure the safeguarding of cash receipts.
2. Monitor cash boxes, cash registers, safes, and any other locations where cash is stored to ensure that they are adequately locked and secure to avoid misplacement or theft of cash.

**Finding 1.2**

**Training of staff in cash-handling procedures needs improvement.**

*Training staff in cash-handling is needed to ensure the integrity of cash collection.*

Four collection points do not provide adequate cash-handling training to their staffs. Of the four collection points, three do not provide cash-handling training yearly and two do not sufficiently include counterfeit detection methods in their training.

According to the city cash-handling guidelines, employees should be well trained in cash-handling functions and maintain segregation of duties. Departments should have a detailed annual training program in place, document the training that is provided, and explore ways to train staff involved in collections to increase their ability to detect counterfeit currency, such as using a counterfeit pen.

**Recommendation**

3. Departments should implement a detailed annual training program of cash-handling procedures, document all training that is provided, and explore ways to train staff in counterfeit detection methods.

**Finding 1.3**

**Depositing and recording of cash receipts need improvement.**

Three collection points need to improve the ways in which they deposit cash. Some departments do not deposit cash receipts by the next business day or do not adequately collect payments. Specifically, two collection points do not deposit cash daily, and one collection point does not have a policy to periodically collect revenue from cash trays during employees' shifts.

According to the city cash-handling guidelines, cash must be deposited with the Treasurer or in a city bank account no later than the next business day after its receipt. The guidelines also instruct that, if a department does not believe it can meet this requirement, it can contact the Controller. Also, the guidelines require that supervisors routinely collect revenue from cash collection points.

*Delays in depositing cash increase the risk that cash may be lost or stolen.*

When departments do not deposit cash promptly, the City loses some of the interest it earns from the deposit. Although such interest amounts are likely small, they can add up over time to significant totals. Further, delays in depositing cash increase the risk that it may be lost or stolen.

Also, periodic collections of revenue from cash collection points help to increase the location's ability to protect its cash.

**Recommendations**

Departments should:

4. Deposit cash collected by the business day following its receipt. If other arrangements are necessary, departments should contact the Controller's Accounting Operations and Systems Division to establish a different schedule.

5. Establish procedures to have supervisors routinely collect revenue from cash collection points.

**Finding 1.4**

**Controls over custody and segregation of duties are weak.**

At two collection points, one employee is allowed to be involved in multiple, incompatible duties in the cash collection process. For example, one unit's employee is responsible for recording cash, preparing deposits, and submitting deposits to the Treasurer. These consecutive functions should be performed by different individuals.

*Proper dual custody methods reduce the possibility of errors, theft, or cash mishandling.*

Single custody occurs when cash assets are independently accessible by an individual at any time, and the individual performs multiple functions. Cash-handling duties such as receiving cash, reconciling cash,

depositing cash, and posting transactions should be segregated among different employees to reduce the possibility of errors, theft, and mishandling of cash.

The practice of single custody is a weak internal control that increases the risk of inaccurate account records and misappropriation of cash, leading to inaccurate deposits. Separating cash-handling duties between two or more employees (for example, dual custody) should be provided for and enforced to ensure that one employee does not have sole access to large sums of cash and does not perform incompatible tasks.

According to the city cash-handling guidelines, departments should prohibit employees responsible for collecting cash from preparing bank deposits. Also, proper dual custody methods ensure that no one person has sole access to cash and reduce the possibility of errors, theft, and mishandling of cash.

**Recommendations**

Departments should:

6. Adequately segregate incompatible cash-handling functions, including the:
   a. Collection of cash receipts.
   b. Reconciliation of cash receipts.
   c. Recording of cash receipts.
   d. Preparation and completion of bank deposits.
7. Enforce the policy of segregating cash-handling duties.

**Finding 1.5**

**Departments should endorse checks upon receipt.**

*Checks should be endorsed upon receipt to ensure deposit into proper accounts.*

Two collection points did not properly handle checks by not endorsing them upon receipt. According to the Association of Public Treasures of the United States and Canada, all checks should be endorsed upon receipt. For checks that will be deposited by the City, it is important to endorse them immediately upon receipt to prevent fraud and improper deposit.

**Recommendation**

8. Departments should create and enforce policy to endorse all checks immediately upon receipt.

**Finding 1.6**

**Some cash-handling policies and procedures are absent or inadequate.**

One division needs to strengthen its written cash-handling policies and procedures. The division's guidelines do not include general information such as descriptions of all sources of cash, inventory control, daily reconciliations, back-up policies in case of absence of key employees, management reviews, returned checks, and training of staff.

*Policies and procedures help ensure that employees effectively and consistently perform their duties.*

Written policies and procedures are essential to ensure that staff can effectively and consistently perform its duties in adherence with documented guidelines. The city cash-handling guidelines state that departments should develop, formalize, and update procedures for staff to use in processing transactions and handling collections in performing its duties.

**Recommendations**

Departments should:

9. Create departmental cash-handling policies and procedures and require all employees who handle cash to follow these policies and procedures. The policies and procedures should be based on the Office of the Controller's Departmental Guidelines No. 003-12, Cash Handling Guidelines.

10. Compare their cash-handling policies and procedures to the Office of the Controller's Departmental Guidelines No. 003-12, Cash Handling Guidelines, and update their policies and procedures as needed.

**Finding 1.7**

**Collections are not always adequately reconciled.**

*A lack of proper reconciliation increases the risk of theft or discrepancies between cash received and deposited.*

One collection point does not reconcile transactions with deposited amounts. Despite the fact that the city cash-handling guidelines state that reconciliation should be performed daily, the division that manages this collection point does not perform any reconciliations. Although the daily transaction amounts are small, a lack of any reconciliation increases the risk of losing cash, theft, and discrepancies between cash received and deposited.

**Recommendation**

11. Departments should document and implement a process for reconciling transactions to amounts deposited in the bank and to postings in the City's accounting system.

**Finding 1.8**

**Pre-numbered receipts are not used for receiving cash.**

*The lack of pre-numbered receipts increases the risk of misappropriation of cash.*

One collection point does not properly control transaction receipts. Specifically, the division does not use pre-numbered receipts for the payments it receives. According to the city's cash-handling guidelines, departments should develop an inventory control system for receipt books that incorporates the use of a range of numbers pre-printed on the receipts. The lack of pre-numbered receipts leaves departments at greater risk of misappropriation of cash.

For example, when pre-numbered receipts are used, supervisors can easily reconcile the amount of cash actually received to the amount of cash that should have been received according to the record of receipts issued by the cashiers. Use of pre-numbered receipts allows missing cash and non-sequential use of receipts to be quickly detected, so explanations from cashiers can be sought promptly.

**Recommendations**

Departments should:

12. Develop an inventory control system for receipt books that includes use of pre-numbered receipts.

13. Implement policies and procedures related to customer receipt issuance to systematically account for sales transactions.

# CHAPTER 2 – Summary of Departments' Responses to Findings and Recommendations

**Summary**

CSA's findings and recommendations were widely accepted by the six departments assessed.

*Individual assessments were favorably received by departments.*

Each assessed department generally concurred with CSA's findings. Departments also agreed to implement most recommendations, considering them feasible.

CSA will continue to assess the cash-handling processes and controls throughout the City each fiscal year. CSA will also collaborate with the Treasurer to determine if there have been major changes to department's cash-handling environments. This ongoing process will ensure that CSA properly assesses risks throughout the City. CSA will publish a report on the findings annually and continue to monitor all recommendations to ensure that departments properly addressed them.

City departments should continue to focus on improving their cash-handling procedures. Effective cash collection controls are beneficial in every operation, and there is no greater responsibility than safeguarding the money of the people of San Francisco.

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# APPENDIX A: CASH COLLECTION POINT SURVEY

CSA collected information from city departments about their cash collections using two categories of questions in a survey that CSA and the Treasurer issued to 61 departments in July 2012. The information items and their categories are shown below.

Cash Collection Point Information

- Location name
- Purpose of collections
- Subobject code for cash receipts in City's accounting system
- Location address
- For each collection type (cash currency and coins, checks, credit cards, wire transfers, and lock box):
  - Average dollar amount per business day
  - Average number of transactions per business day
  - Average dollar amount per month
  - Average number of transactions per month
- For deposits of cash and checks:
  - Average number of deposits per month
  - Frequency of deposits
  - Bank account number to which deposits are made
- For armored cars:
  - Average dollar amount per pickup
  - Average number of pickups per month
  - Frequency of pickups

Controls Information

- Do you have written policies and procedures for this location?
- Do written procedures accurately reflect all current practices?
- Is training on cash-handling policies and procedures provided to all employees who handle cash?
- Is cash-handling training completed annually and is the training fully documented?
- Are all the following duties generally performed by different people?
  - Collection of cash
  - Preparation of deposit slips
  - Maintenance of mail receipts log
  - Reconciliations (for example, cash collection records to City's accounting system and to bank statements, as applicable)
- Are receipts provided for all cash collected?
- What types of receipts are provided to customers?
  - Cash register receipt
  - Receipt from pre-numbered receipt book

  - Tickets or passes
  - Other; please describe
- Are all cash receipts deposited daily (currency, checks, and credit card)?
- Is a deposit slip prepared (and certified by the preparer's signature) for all cash received?
- Is cash received used to cash employee checks, as a change fund, or to pay for expenses?
- Are cash shortages identified, recorded, and reported?
- How is cash physically safeguarded against theft?
  - Locked drawer
  - Locked safe
  - Security camera
  - Other; please describe
- Are register/computer users assigned unique log-ins/passwords?
- Does management have knowledge of any fraud or suspected fraud related to cash receipts in the current or prior two fiscal years?

# APPENDIX B: Risk Assessment Criteria

| Criteria | Description |
|---|---|
| Monthly dollar amount of transactions | • The value of a department's monthly collections. The higher the value, the higher the perceived risk. |
| Daily frequency of transactions | • The number of transactions in the department per day. The more transactions, the higher the perceived risk. |
| Reconciliation variances | • Differences between expected and recorded revenue amounts, if any. The greater the differences, the higher the perceived risk. |
| Collection complexity | • City departments use different methods to collect cash, and a department may use more than one method. The more methods used, the higher the perceived risk. |
| Extent of centralization | • The design and number of departments' cash collection points vary. The more locations, the higher the perceived risk. |
| Survey signals | • Some departments' answers to the survey questions indicated potential internal control weakness that required follow-up inquiry and investigation. The more such answers, the higher the perceived risk. |

Source: Auditor's analysis.